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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 SAM-01 NEA-11 OMB-01 IO-14 FEA-02 SCI-06

CIEP-02 COME-00 INT-08 TRSE-00 STR-08 EB-11 DRC-01

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R 041809Z FEB 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 6600

INFO AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

USEC BRUSSELS

AMEMBASSY BRUSSELS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TOKYO

AMEMBASSY TEHRAN

C O N F I D E N T I PARIS 3083

E.O. 11652: GDS

TAGS: ENRG, SA, FR

SUBJECT: ENERGY: FRENCH/SAUDI NEGOTIATIONS

STATE FOR T/IEP

SUMMARY: FRENCH-SAUDI NEGOTIATIONS CONTINUE FOLLOWING
FONMIN JOBERT'S VISIT TO JIDDA, WITH GOAL BEING TO REACH
GENERAL FRAMEWORK OF AGREEMENTS ON OIL SALES AND FRENCH
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INDUSTRIAL SALES BY END MARCH. OIL QUANTITIES WOULD BE

INCREASED GRADUALLY OVER LENGTH OF 20-YEAR CONTRACT;
PRICE NOT YET DETERMINED. FRENCH WILL PUT TOGETHER SALES
PACKAGE THROUGH FURTHER TRIPS TO JIDDA BY BUSINESSMEN AND
OFFICIALS. FRENCH SEE DEAL WITH SAUDIS AS NECESSARY IN
LIGHT OF GROWING ROLE OF PRODUCER GOVERNMENTS IN REPLACING
OIL COMPANIES AS MAJOR SELLERS OF OIL.

2. WHILE MANY DETAILS REMAIN TO BE WORKED OUT, MAIN LINES
OF CONTINUING FRENCH NEGOTIATIONS WITH SAUDI ARABIA ARE
EMERGING FROM THE PRESS AND OUR GOF CONTACTS. ESTABLISHMENT
DURING JOBERT'S VISIT OF FRENCH-SAUDI GOVERNMENTAL COMMITTEE
UNDER FOREIGN MINISTERS HAS GIVEN FRAMEWORK FOR CONTINUATION
OF NEGOTIATIONS (INCLUDING EXPECTED VISITS TO SAUDI ARABIA BY
GROUPS OF FRENCH INDUSTRIALISTS) DIRECTED TOWARD HOPED SIGNING
OF SEVERAL GENERAL AGREEMENTS - ONE FOR OIL PURCHASES, ONE FOR
INDUSTRIAL AND TECHNICAL ASSISTANCE - BY END OF MARCH.

2. FONMIN ECONOMIC SECTION OFFICERS HAVE CONFIRMED
FIGURES QUOTED BY PRESS TO EFFECT THAT GOF IS NEGOTIATING
TO PURCHASE 800 MILLION TONS OF OIL OVER TWENTY-YEAR
PERIOD. DELIVERIES WOULD BEGIN AT LEVEL OF APPROXIMATELY
120,000 B/D IN CURRENT YEAR (IF AGREEMENT REACHED),
INCREASING TO 160,000 B/D IN 1976, 240,000 B/D IN 1977,
AND RISING SHARPLY THEREAFTER. PRICE OF OIL PURCHASES NOT
YET ESTABLISHED, ACCORDING TO OUR SOURCES, WHO APPEAR TO
HAVE BEEN IMPRESSED BY REPORTED UK CONTRACT TO BUY FROM
IRAN AT DOLS 7 BBL PLUS MARGIN (WHEREAS RECENT "SMALL"
FRENCH PURCHASES FROM SAUDIS REPORTEDLY MADE AT MUCH
HIGHER COST OF 93 PCT OF POSTED PRICE). GOF WORKING-LEVEL
CONTACTS AT FONMIN AND MININDUSTRY WAY NO FINAL DECISION
HAS YET BEEN MADE WITHIN GOF ON EVENTUAL DISPOSITION OF
OIL IF NEGOTIATIONS SUCCEED--E.E., TO WHAT DEGREE IT
WOULD BE SHARED BETWEEN FRENCH COMPANIES AND INTERNATIONALS
WITH REFINERIES IN FRANCE, AND ON WHAT TERMS INTERNATIONALS
WOULD BE EXPECTED TO TAKE, REFINERIES, AND MARKET THEIR SHARE.
THEY NOTE, HOWEVER, THAT DECISION IS NOT PRESSING BECAUSE
MAJOR VOLUMES OF OIL WILL NOT BE AVAILABLE UNTIL LATER THIS
DECADE. PART OF ANSWER, THEY NOTE, WILL BE STILL-UNKNOWN-
AVAILABILITY OF OIL TO INTERNATIONALS DURING SAME TIME
PERIOD.

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3. FRENCH, ACCORDING TO PRESS, ADVANCED MEMORANDUM TO
SAUDIS DURING JOBERT VISIT PROPOSING VARIOUS INDUSTRIAL
PROJECTS TO PAY FOR OIL. GOF HAS BEEN ANXIOUS TO AVOID
IMPRESSION THAT DIRECT BARTER INVOLVED, AND HAS ALSO
STUDIOUSLY ATTEMPTED TO SEPARATE OUT TALKS ON ARMS SALES,
WHICH, OFFICIAL SOURCES HAVE INSISTED, ARE ENTIRELY
SEPARATE MATTER. AMONG ITEMS REPORTEDLY DISCUSSED,

SOME OF WHICH ALREADY UNDER ACTIVE NEGOTIATION, ARE BUILDING OF OIL TANKERS, PETROCHEMICAL PLANTS, EXPANSION OF JIDDA REFINERY, WATER DESALINIZATION PROJECTS, SALE OF FRENCH COLOR TV (SECAM) SYSTEM, STEEL WORKS, INTERNATIONAL TELEPHONE LINES, MINERALOGICAL RESEARCH (INCLUDING PERHAPS FOR URANIUM) AND MANY OTHERS. TASK OF JOINT COMMISSION--AND OF EXPECTED STREAM OF FRENCH BUSINESS VISITORS TO SAUDI ARABIA--WILL BE TO DRAW UP PACKAGE OF DEVELOPMENT PROJECTS TO BALANCE OIL SALES AGREEMENT. FRENCH HAVE REPORTEDLY HAD SOME DIFFICULTIES TO DATE IN COORDINATING THEIR OFFER TO SAUDIS.

4. COMMENT: ALTHOUGH FINAL ELEMENTS OF AGREEMENT REMAIN UNCLEAR, AND IMPORTANT PRICE QUESTION NOT YET RESOLVED, FRENCH CLEARLY INTEND TO MAKE CONCERTED EFFORT TO OBTAIN SIGNIFICANT POSITION IN SAUDI ECONOMY. FRENCH SEE THIS AS VITAL TO THEIR INTERESTS: SAUDI ARABIA SUPPLIED APPROXIMATELY ONE QUARTER OF FRENCH OIL IMPORTS IN 1973 AND ITS SUPPLIER ROLE IS EXPECTED TO GROW UNDER ANY CIRCUMSTANCES. FRENCH APPEAR TO BELIEVE SAUDIS WILL OBTAIN SIGNIFICANTLY LARGER PARTICIPATION IN OIL CONCESSIONS IN FUTURE AND WILL MARKET GROWING SHARE OF OIL (WHILE SHARE OF COMPANIES WHO NOW SUPPLY SAUDI OIL TO FRANCE BOUND TO DECLINE). IN THIS CIRCUMSTANCE, FRENCH REASON, IT ESSENTIAL THAT FRANCE MAKE ITS DEALS EARLY AND IN THE GOVERNMENT-TO-GOVERNMENT FORM WHICH SAUDIS SEEM TO WANT.

5. COMMENT: (CONT'D) WE RECOGNIZE THAT FRENCH MAY GET SOME SATISFACTION FROM PULLING FEATHERS FROM THE U.S. EAGLE'S TAIL IN WHAT HAS FORMERLY BEEN ITS EXCLUSIVE TERRITORY; NOR ARE THEY UNHAPPY AT UNDERCUTTING, THROUGH BILATERAL DEALING, THE INTERNATIONAL OIL COMPANIES (TOWARD WHICH THEIR BASIC

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DISTRUST HAS BEEN HEIGHTENED DURING EMBARGO WHEN COMPANIES HAVE REFUSED--IN GOOD EYES--TO GIVE FRANCE FULL BENEFIT OF ITS PREFERRED POSITION WITH ARABS). FRENCH DEALINGS WITH SAUDI ARABIA ARE ALSO BASED PARTIALLY ON FRANCE'S DESIRE TO PLAY A ROLE IN ANY ARAB-ISRAELI SETTLEMENT. BUT WE BELIEVE THAT PRIMARY MOTIVE FOR FRENCH BILATERALISM IS GOOD ANXIETY TO ASSURE ITS FUTURE OIL SUPPLIES AT TIME IN WHICH CONTROL OVER THOSE SUPPLIES IS PASSING INTO HANDS OF PRODUCING GOVERNMENTS. FRENCH BELIEVE THEY HAVE READ HISTORY OF FUTURE IN OIL INDUSTRY CORRECTLY, BUT ARE CONCERNED THAT USG MAY TRY TO REVERSE EVENTS (EITHER AT WASHINGTON CONFERENCE OR THROUGH INTERVENTION IN RIYADH) TO REIMPOSE AMERICAN "MONOPOLY" ON SAUDI ARABIAN OIL SUPPLIES. CONSEQUENTLY, AN IMPORTANT ELEMENT IN ANY FRENCH AGREEMENT TO GO ALONG WITH MULTILATERAL COOPERATION

TION IN ENERGY WILL BE DEGREE TO WHICH THEY BELIEVE THAT
OUR EFFORT IS AIMED AT REIMPOSING
MARKET HEGEMONY OF U.S. COMPANIES.
IRWIN

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